

STATE OF SOUTH CAROLINA

(Caption of Case)
In the Matter of:

Application of Duke Energy Carolinas,
LLC for Approval of Energy Efficiency
Plan Including an Energy Efficiency Rider
and Portfolio of Energy Efficiency Programs

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2007 - 358 - E

(Please type or print)

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DOCKETING INFORMATION (Check all that apply)

- ☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously
- ☐ Other: _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)			
<input checked="" type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request	
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification	
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation	
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement	
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment	
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter	
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response	
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery	
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition	
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation	
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input checked="" type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena	
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff	
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other:	
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest		
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit		
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report		

STATE OF SOUTH CAROLINA
BEFORE THE PUBLIC SERVICE COMMISSION
DOCKET NO. 2007-358-E

In the Matter of:)	SURREBUTTAL TESTIMONY OF
)	FRANK KNAPP JR. ON BEHALF OF
Application of Duke Energy)	ENVIRONMENTAL DEFENSE, THE
Carolinas, LLC for Approval of)	SOUTH CAROLINA COASTAL
Energy Efficiency Plan Including an)	CONSERVATION LEAGUE,
Energy Efficiency Rider and Portfolio)	SOUTHERN ALLIANCE FOR CLEAN
of Energy Efficiency Programs)	ENERGY AND THE SOUTHERN
)	ENVIRONMENTAL LAW CENTER

1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND AFFILIATION.**

2 A. My name is Frank Knapp, Jr. I am the president and CEO of The South
3 Carolina Small Business Chamber of Commerce, 1717 Gervais Street, Columbia,
4 SC 29201.

5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THE DOCKET?**

6 A. Yes, I provided direct testimony on behalf of Environmental Defense
7 (“ED”), the South Carolina Coastal Conservation League (“CCL”), the Southern
8 Environmental Law Center (“SELC”), and Southern Alliance for Clean Energy
9 (“SACE”).

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. The purpose of my surrebuttal testimony is (1) to respond to the rebuttal
12 testimony of Duke Energy Carolinas, LLC (“Duke” or the “Company”) Witness
13 Farmer regarding cost of capital or “rate of return on investment” as I have
14 previously referred to it; (2) to respond to the rebuttal testimony of Duke Witness
15 Stevie regarding correction to calculations of the revenues per kilowatt-hour
16 (“kWh”) associated with the Company’s filing; and (3) to respond to the rebuttal
17 of Duke Witness Schultz regarding material risk of failing to recover program
18 costs, energy efficiency achievements in other states, small business’s opportunity
19 to participate in the program and the fiscal impact on small businesses compared
20 to other classes.

21 **Q. WHAT IS YOUR RESPONSE TO DUKE WITNESS FARMER’S**
22 **CLARIFICATION OF COST OF CAPITAL?**

1 A. ED, CCL, SACE and SELC Witness Akins' surrebuttal (utilizing Mr.
2 Farmer's calculations) confirms my concern that Duke's cost of capital (rate of
3 return for investment) is excessive compared to the most recent Public Service
4 Commission-approved rate for South Carolina Electric and Gas ("SCE&G").
5 Furthermore, testimony by ED, CCL, SACE and SELC Witness Wilson indicates
6 that Duke would receive additional profits above and beyond the cost of capital.
7 In considering Duke's Application, the Commission should require full disclosure
8 of the total potential profit rate to be obtained through this rate request. This profit
9 rate should be based on actual incurred costs rather than (unspent) avoided costs.

10 **Q. DO YOU ACCEPT DUKE WITNESS STEVIE'S CORRECTION OF**
11 **YOUR EXHIBIT A?**

12 A. I appreciate Mr. Stevie's additional information and correction of the
13 error.

14 Although the information provided by Mr. Stevie is helpful, it is
15 incomplete. In attempting to understand the costs that my members might be
16 expected to pay, I considered all the costs. Mr. Stevie corrected the record for
17 energy conservation only, however, which represents less than one-quarter of the
18 planned investment by Duke Energy. If 5.2 cents per kWh is the long-term cost
19 of energy conservation, then if that ratio holds, it would be reasonable to
20 extrapolate the cost of load shifting to be somewhat more than 15.6 cents per
21 kWh. I am, of course, aware that the commodity being purchased with load
22 shifting is kW rather than kWh, but for my members who primarily purchase

1 electricity at a kWh rate, it is important that I be able to explain the program in
2 terms that they can understand.

3 If my logic is correct, then it would appear that the total cost of Save-a-
4 Watt could be expressed as 20.8 cents per kWh. I note that this simple
5 extrapolation turns out to be quite close to the value I presented in Exhibit A.

6 Additional information is necessary to allow the Commission, the parties
7 to this docket, and the ratepayers to evaluate Duke's Application. These costs
8 should be broken down for residential and non-residential customers, since there
9 are different rates for each class. I would also like to know what (if any) savings
10 those customers might enjoy as a result of avoiding other energy and capacity
11 costs and when those customers might expect to realize those benefits.

12 **Q. DO YOU HAVE ANY FURTHER RESPONSE TO DUKE WITNESS**
13 **STEVIE?**

14 A. Yes, I am frankly shocked that Duke Energy proposes to sell "Save-a-
15 Watts" at a rate of 5.2 cents per kWh. As noted in the testimony of Dr. Nichols,
16 which I have reviewed, this is much higher than costs paid by customers in other
17 states as determined in the *National Action Plan for Energy Efficiency*. It is
18 difficult to reconcile this high-cost program with the low-cost rhetoric I've been
19 hearing.

20 **Q. WHAT IS YOUR RESPONSE TO DUKE WITNESS SCHULTZ**
21 **REGARDING MATERIAL RISK TO DUKE?**

22 A. Mr. Schultz asserts that there is uncertainty surrounding customer participation
23 and therefore there is an appreciable risk to the Company for incurring

1 expenses, including marketing expenses. He further describes a scenario where
2 Duke “only realizes 50 % of our planned customer participation” that would
3 result in the Company’s earnings being reduced by about 80 %. Schultz
4 Rebuttal Testimony at 5.

5 Regarding small businesses, the Company’s risk is negligible under the
6 program as offered. The marketing consists mostly of direct marketing (mail, e-
7 mail, bill inserts, promotion on the Duke web site), existing Duke business
8 relations managers, and private vendors uncompensated by Duke. Businesses will
9 more than help pay for the Non-Residential On-Site Energy Assessments, and
10 there is no indication of additional staffing needed for the on-line or telephone
11 analysis. Monetary incentives for the SmartSaver Non-Residential Customer will
12 assuredly be recouped by the Company since the business is paying for most of
13 the cost for the new equipment, thus assuring that the business both needs the
14 equipment and will use it. In addition, Mr. Schultz indicates that the Kentucky
15 SmartSaver program was very popular.

16 In short, Mr. Schultz’s example of the potential risk to the Company’s
17 earnings from lower than planned customer participation is unsubstantiated by
18 any data.

19 **Q. WHAT IS YOUR RESPONSE TO DUKE WITNESS SCHULTZ**
20 **REGARDING ENERGY EFFICIENCY ACHIEVEMENTS IN OTHER**
21 **STATES?**

22 A. Certainly, Duke Energy Carolinas should be applauded for initiating the
23 conversation about energy efficiency in South Carolina. However, the fact that it

1 is taking a leadership position in this regard compared to other electric utilities
2 does not mean that the Company should be excused from putting in place the
3 most effectively designed energy efficiency program to produce the highest
4 energy sales savings. Testimony by ED, CCL, SACE and SELC Witness Wilson
5 indicates that programs in other states, such as Idaho, experience far greater
6 energy savings than what the Company proposes.

7 **Q. WHAT IS YOUR RESPONSE TO DUKE WITNESS SCHULTZ**
8 **REGARDING THE OPPORTUNITY FOR SMALL BUSINESSES TO**
9 **PARTICIPATE IN THE PROGRAM?**

10 A. Mr. Schultz is correct in stating that I, as president of The South Carolina
11 Small Business Chamber of Commerce, was invited to be a part of the South
12 Carolina Energy Efficiency Collaborative Group. While I welcomed the
13 opportunity and attended the first meeting of the Collaborative, both the location
14 of the meetings (Greenville, SC) and the scheduling of the meetings resulted in
15 my inability to attend further meetings. At the first meeting I made it clear to
16 those conducting the Collaborative's meetings that I would find it difficult to
17 attend the meetings.

18 Although I did receive e-mail updates from the Collaborative meetings,
19 the communications were not a good substitute for in-person participation,
20 especially for an energy layman. I was consequently not able to have adequate
21 input into this process. To my knowledge, no other official of the small business
22 community participated. At no time was there an offer from those running the
23 Collaborative to seek my input in a way that would be more conducive to my

1 participation. Consequently, the small business community was left out of the
2 Collaborative process.

3 Mr. Schultz is correct in observing that the small business customers will
4 be a challenge for the Company to reach. However, he provides no survey data
5 that supports his statement that “energy usually represents a small portion of
6 operating costs and most small business owners rank energy management low on
7 their priority list.” Schultz Rebuttal Testimony at 11.

8 If small businesses are to experience a rate increase as a result of this
9 program, they should have the same opportunity to participate and experience
10 energy savings as residential customers and larger users of energy. The program
11 as described will be easier for residential customers to participate in and benefit
12 from. Larger energy consumers will have an additional program available
13 compared to small businesses.

14 Small businesses face special challenges that are not shared by large
15 businesses or homeowners. When a small business is a tenant in a building, it
16 usually lacks the opportunity to invest in the mechanical upgrades proposed in
17 Save-A-Watt. Even if the business has the opportunity to do so, the terms of its
18 lease often make it uncertain whether it will maintain occupancy long enough to
19 earn a return on its investment. The converse of this issue is that the landlord may
20 find it difficult to pass through the costs of energy saving upgrades to tenants who
21 enjoy the savings. These are the sorts of special challenges that I had hoped to see
22 addressed in the Save-a-Watt application.

1 Even without this kind of specific evidence of leadership, I am somewhat
2 reassured by Mr. Schultz's indication that their experience in Ohio showed over
3 40 percent participation by small- and medium-sized businesses. However, to
4 fully convince me of the effectiveness of the effort, I would need additional
5 information not provided in Mr. Schultz's testimony. For example, was the
6 participation by these businesses primarily in an on-line or telephone energy
7 analysis, which might result in little energy savings to the small business, or was
8 it in a program like SmartSaver? If the latter, how large were the energy savings
9 and how did the participating and general class of small businesses benefit (in
10 financial or other terms)? This information is important for the Commission and
11 stakeholders to fairly evaluate Duke's Application.

12 **Q. WOULD THE SAVE-A-WATT PROPOSAL RESULT IN AN INCREASE**
13 **IN THE TOTAL ELECTRIC BILL FOR SMALL BUSINESSES AS A**
14 **CLASS?**

15 A. Yes, it would. As described above, the relationship between a small
16 business tenant and the owner of the building can preclude the small business's
17 opportunity to participate in the Save-A-Watt program, and thus not reduce
18 electricity use. To the degree that large numbers of small businesses do not
19 participate in the Save-A-Watt program, due to this building ownership issue,
20 upfront cost to purchase new equipment or other reason, small businesses as a
21 class will see a rate increase.

22 Compounding this situation is the fact that the Company will share net
23 benefits exceeding 100 percent, addressed in the Surrebuttal Testimony of ED,

1 CCL, SACE, and SELC Witness Wilson. This outcome would guarantee that
2 small businesses would see a net increase in rates as a class.

3 Of course, from a ratepayer perspective, even a net rate increase for the
4 small business community might be justified if the program resulted in reducing a
5 larger rate increase on the near horizon. However, since 1991 the Company has
6 not requested a rate adjustment in South Carolina in order to bring new power
7 plants on line. Thus, recent history suggests that there is no rate increase on the
8 near horizon for South Carolina small businesses served by the Company, despite
9 any plans the Company may have to build new power plants in the future.

10 It is our serious concern that the Save-A-Watt program will increase costs
11 to small businesses, even for those that participate in the program. If the Save-A-
12 Watt program cannot be modified to increase small business participation and the
13 net savings by those businesses and not add costs to small businesses not
14 participating, then the small business class would be better served to be excluded
15 entirely from the program.

16 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONEY?**

17 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that the following persons have been served with the Southern Environmental Law Center (SELCE), Southern Alliance for Clean Energy (SACE), the South Carolina Coastal Conservation League (CCL), and Environmental Defense (ED) surrebuttal testimony of Frank Knapp, Jr.:

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This 28th day of January, 2008.

S/Kate Double
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